

## **SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND**

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FINANCIAL STATEMENTS FOR THE  
YEARS ENDED DECEMBER 31, 2001 AND 2000, AND  
INDEPENDENT AUDITORS' REPORT

**Deloitte & Touche LLP**



## INDEPENDENT AUDITORS' REPORT

Director  
Seattle Public Utilities – Solid Waste Fund  
Seattle, Washington

We have audited the accompanying balance sheets of the Seattle Public Utilities – Solid Waste Fund (the Fund) as of December 31, 2001 and 2000, and the related statements of operations and changes in accumulated deficit and of cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Deloitte &amp; Touche LLP".

March 27, 2002

## SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND

### BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

<u>ASSETS</u>	<u>2001</u>	<u>2000</u>
UTILITY PLANT, at original cost:		
Plant in service, excluding land	\$ 22,462,717	\$ 21,236,401
Less accumulated depreciation	<u>(14,310,599)</u>	<u>(12,599,804)</u>
	8,152,118	8,636,597
Construction in progress	2,952,205	8,466,119
Land and land rights	1,587,697	1,587,697
Nonoperating property, net of accumulated depreciation	<u>2,373,906</u>	<u>2,373,906</u>
	15,065,926	21,064,319
RESTRICTED ASSETS:		
Construction Fund – Cash and equity in pooled investments	919,903	2,386,613
Vendor deposits – Cash and equity in pooled investments		<u>30,849</u>
	919,903	2,417,462
CURRENT ASSETS:		
Cash and equity in pooled investments	504,372	3,157,090
Accounts receivable, net of allowances for doubtful accounts of \$55,360 and \$21,388	12,595,949	5,845,824
Unbilled revenues	325,245	1,050,530
Due from other City funds	323,699	719,340
Due from other governments	1,040,671	1,010,540
Other	<u>24,242</u>	<u>16,316</u>
	14,814,178	11,799,640
DEFERRED CHARGES AND OTHER:		
Unamortized bond issue costs, net	316,363	353,022
Deferred landfill closure and postclosure costs, net	42,153,274	46,536,667
Other deferred charges	<u>7,876,483</u>	<u>968,947</u>
	<u>50,346,120</u>	<u>47,858,636</u>
TOTAL	<u>\$ 81,146,127</u>	<u>\$ 83,140,057</u>

See notes to financial statements.

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EQUITY AND LIABILITIES20012000

## EQUITY:

Accumulated deficit	\$ (424,259)	\$ (989,983)
Contributions in aid of construction	<u>437,991</u>	<u>437,991</u>
	13,732	(551,992)

## REVENUE BONDS:

Revenue bonds, due serially	36,220,000	39,469,304
Less revenue bonds due within one year	(3,405,000)	(3,249,304)
Plus bond discount and premium, net	774,567	882,237
Less deferred charges on advanced refunding	<u>(1,562,947)</u>	<u>(1,769,049)</u>
	32,026,620	35,333,188

## NONCURRENT AND OTHER LIABILITIES:

Accrued landfill postclosure costs, net of current portion	28,230,625	30,657,913
Claims payable	348,457	334,026
Advances from other funds	3,000,814	
Vendor deposits payable		<u>29,627</u>
	31,579,896	31,021,566

## CURRENT LIABILITIES:

Accounts payable	6,738,058	4,824,797
Accrued payroll and payroll taxes payable	483,897	354,700
Accrued taxes payable	490,113	188,135
Compensated absences payable	1,037,057	1,145,348
Due to other City funds	1,238,186	2,945,345
Claims payable	151,370	96,559
Revenue bonds due within one year	3,405,000	3,249,304
Accrued interest payable	740,082	805,465
Accrued landfill closure and postclosure costs	1,375,320	1,515,856
Deferred credits and other	<u>1,866,796</u>	<u>2,211,786</u>
	17,525,879	17,337,295

## TOTAL

\$ 81,146,127	\$ 83,140,057
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## SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND

### STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
OPERATING REVENUES:		
Direct service	\$ 51,551,599	\$ 50,147,568
Other	<u>53,959,280</u>	<u>36,273,618</u>
	105,510,879	86,421,186
OPERATING EXPENSES:		
Solid waste collection	55,024,617	42,089,744
Resource management	7,060,961	7,580,890
Field operations	6,550,424	6,479,934
Engineering services	288,458	372,722
Customer services	5,767,357	3,126,640
General and administrative	6,697,540	7,393,568
City business and occupation taxes	13,209,875	8,713,230
Other taxes	3,892,675	2,424,982
Depreciation and amortization	2,072,856	1,768,506
Amortization of landfill and postclosure costs	<u>3,029,656</u>	<u>3,108,952</u>
	<u>103,594,419</u>	<u>83,059,168</u>
Net operating income	1,916,460	3,362,018
OTHER INCOME (EXPENSES):		
Investment and interest income	350,678	573,392
Interest expense	(1,864,563)	(1,930,913)
Amortization of debt expenses	(135,091)	(166,341)
Loss on sale of capital assets		(78,771)
Other, net	<u></u>	<u>16,273</u>
	(1,648,976)	(1,586,360)
CAPITAL AND OPERATING FEES, CONTRIBUTIONS, AND GRANTS:		
Operating fees, contributions, and grants	<u>298,240</u>	<u>641,605</u>
NET INCOME	565,724	2,417,263
ACCUMULATED DEFICIT:		
Beginning of year	<u>(989,983)</u>	<u>(3,407,246)</u>
End of year	<u>\$ (424,259)</u>	<u>\$ (989,983)</u>

## SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND

### STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
OPERATING ACTIVITIES:		
Cash received from customers	\$99,851,549	\$90,213,338
Cash paid to suppliers and employees	(83,124,331)	(69,468,874)
Cash paid for taxes	<u>(16,365,979)</u>	<u>(10,950,371)</u>
Net cash provided by operating activities	361,239	9,794,093
NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	298,240	851,610
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments on revenue bonds	(3,249,304)	(3,095,000)
Capital expenditures and deferred charges	(2,804,383)	(6,395,789)
Interest paid	(2,107,561)	(2,012,774)
Advances from other funds	<u>3,000,814</u>	<u>3,000</u>
Net cash used by capital and related financing activities	(5,160,434)	(11,500,563)
INVESTING ACTIVITIES:		
Interest received on investments	<u>350,678</u>	<u>536,132</u>
NET DECREASE IN CASH AND EQUITY IN POOLED INVESTMENTS	(4,150,277)	(318,728)
CASH AND EQUITY IN POOLED INVESTMENTS:		
Beginning of year	<u>5,574,552</u>	<u>5,893,280</u>
End of year	<u>\$ 1,424,275</u>	<u>\$ 5,574,552</u>

## SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND

STATEMENTS OF CASH FLOWS *(continued)*  
YEARS ENDED DECEMBER 31, 2001 AND 2000

	<u>2001</u>	<u>2000</u>
RECONCILIATION OF NET OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating income	\$ 1,916,460	\$ 3,362,018
Adjustments to reconcile net operating income		
to net cash provided by operating activities:		
Amortization of landfill and postclosure costs	3,029,656	3,108,952
Depreciation and amortization	2,072,856	1,768,506
Change in estimate of risk financing liability, net	69,242	(6,746)
Cash provided (used) by changes in operating assets		
and liabilities:		
Unbilled revenues	725,285	(109,754)
Accounts receivable	(6,750,125)	86,026
Due from other City funds	395,641	3,815,880
Prepayments and other current assets	(7,926)	19,240
Due from other governments	(30,131)	
Accounts payable	1,913,261	(193,211)
Vendor deposits payable	(29,627)	13,780
Accrued payroll and payroll taxes payable	129,197	(100,174)
Compensated absences payable	(108,291)	331,107
Due to other City funds	(1,707,159)	(1,271,341)
Accrued landfill closure and postclosure costs	(1,214,088)	(1,215,031)
Deferred credits and other liabilities	(43,012)	184,841
Total adjustments	<u>(1,555,221)</u>	<u>6,432,075</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 361,239</u>	<u>\$ 9,794,093</u>

# SEATTLE PUBLIC UTILITIES – SOLID WASTE FUND

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2001 AND 2000

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### NOTE 1: OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Operations:** The City of Seattle, Seattle Public Utilities – Solid Waste Fund (the Fund) is a public utility enterprise fund of the City of Seattle (the City). On January 1, 1997, the City created Seattle Public Utilities (SPU), which brought together under one administrative umbrella the Water, Solid Waste, and Drainage and Wastewater functions of the City as well as certain engineering functions. The Fund (as well as the other funds) remains separate for accounting purposes. SPU receives certain services from other departments and agencies of the City, including some that are normally considered to be general and administrative. The Fund is charged a share of these costs and additionally pays a business and occupation tax to the City's General Fund. Solid waste collection and disposal services provided to other City departments and agencies are at rates prescribed by City ordinances.

SPU provides customer service for, and the cost is shared among, SPU's three utility funds (Water, Drainage and Wastewater, and Solid Waste) and Seattle City Light (SCL). In addition, SPU also performed utility billing for each of these entities until early 2001, when SCL implemented its new billing system, Combined Customer Service System (CCSS), and began performing the utility billing service for each of the entities. Instead of billing each other for the two operating services, SPU and SCL made an arrangement to exchange the services. For the years ended December 31, 2001 and 2000, the charge to the Fund was \$5,767,357 and \$3,126,040, respectively. The amount shared by SCL for 2001 and 2000 was \$636,514 and \$3,322,062, respectively. SPU received approximately \$2,276,000 of exchanged services in 2001.

The Fund is subject to regulation by the City and the state of Washington. Service rates are authorized by ordinances passed by the City Council. Accounting policies and financial reporting are regulated by the Washington State Auditor's Office, Division of Municipal Corporations and conform to accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Fund has chosen to apply all pronouncements and interpretations issued by the GASB, as well as those issued by the Financial Accounting Standards Board on or before November 30, 1989, except when they conflict with the GASB.

**Basis of accounting:** The Fund is accounted for on a flow of economic resources measurement focus. Its financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units using the accrual basis of accounting. With the flow of economic resources measurement focus, all assets and liabilities associated with the Fund's operations are included on the balance sheets. The operating statements present increases (revenues) and decreases (expenses) in total assets.

**Revenues:** Revenues are recorded through cycle billings rendered to customers monthly or bimonthly. Amounts billed but not earned at year end are recorded as unearned revenues. The Fund accrues and records unbilled collection service revenues in the financial statements for services provided from the date of the last billing to year end.

**Utility plant:** Costs of additions to utility plant are capitalized. Costs include direct materials, labor, and indirect costs such as engineering, supervision, payroll taxes, pension benefits, and interest. The cost of current repairs and maintenance is charged to expense, while the cost of improvements is capitalized.

**Depreciation:** Plant in service is depreciated on the straight-line method over estimated useful lives as follows:

Buildings	50 years
Transfer stations, scalehouses, and related improvements	5 to 33 years
Machinery and equipment	3 to 20 years

It is the Fund's policy to begin depreciation in the year following acquisition and to record a full year's depreciation in the year of disposition.

**Property held for sale:** In 1990, the Fund purchased 350 acres of land surrounding the Kent-Highlands landfill. A portion of this land will become part of the landfill area, with the excess held for sale. This property is carried at the lower of cost or fair value as nonoperating property on the balance sheets.

**Deferred charges:** The Fund capitalizes all direct and incremental costs and the related overhead incurred in connection with the development of significant information system projects that are to be used internally. Such costs are shown as other deferred charges on the balance sheets and are amortized over the project's estimated useful life, ranging from six to eight years. In 2001, the Fund put a computer system, the CCSS, in service. Deferred CCSS costs of \$6,176,930 will be amortized for eight years beginning in 2002.

**Compensated absences:** Employees earn vacation based upon their date of hire and years of service and may accumulate earned vacation up to a maximum of 480 hours. Unused vacation at retirement or normal termination is considered vested and payable to the employee. Earned but unused vacation is accrued as a liability of the Fund.

Employees also earn up to 12 days of sick leave per year and may accumulate sick leave balances without limit. Employees are paid 25% of the value of unused sick leave upon retirement. They are not paid for unused sick leave if they leave before retirement. The Fund records a liability for estimated sick leave payments.

**Taxes:** The Fund is charged a business and occupation tax by the City at a rate of 10% of Fund revenues, net of certain credits. The Fund also is charged two taxes by the City based on solid waste tonnages collected and transferred in the City for disposal. In addition, the Fund pays several state business taxes at various rates.

**New accounting pronouncement:** In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, effective for the Fund in fiscal year 2002. For the Fund, this statement will require certain formatting changes to the basic financial statements, as well as a required section covering management's discussion and analysis and certain other required supplementary information. The Fund does not anticipate a material impact to the financial position or operations of the Fund as a result of implementing this standard.

**Accounting changes:** In December 1998, the GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, requires the Fund to report nonexchange transactions as revenues. The Fund adopted GASB Statement No. 33 in the year ended December 31, 2001. Capital and operating grants and the donor cost or fair value of contributed property and equipment were reported as

a component of equity as contributions in aid of construction prior to implementation of GASB Statement No. 33. Beginning in 2001, all nonexchange transactions, including capital fees, contributions, and grants are accounted for in the statements of operations and changes in accumulated deficit. There were no capital fees, contributions or grants received by the Fund during 2001. As such, the adoption of this statement had no effect on the financial statements presented. The cumulative effect of the adoption of this statement will be made in 2002 in conjunction with the implementation of GASB Statement No. 34.

**Use of estimates:** The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements. Estimates and assumptions are used to record landfill closure and postclosure costs, unbilled collection services, allowance for doubtful accounts, accrued sick leave, and other contingencies. Changes in these estimates and assumptions may have a material impact on the financial statements.

**Reclassifications:** Certain reclassifications have been made to prior year balances to provide a presentation consistent with the current year.

## **NOTE 2: CASH AND EQUITY IN POOLED INVESTMENTS**

The City's Department of Finance invests all temporary cash surpluses for City departments. This department may, at various times, invest these surpluses in certificates of deposit issued by Washington State depositories that participate in a state insurance pool, U.S. Treasury and agency securities, prime bankers' acceptances trading in the secondary market, and repurchase or reverse-repurchase agreements with primary dealers who use authorized securities as collateral. Delivery of collateral on the underlying securities is required on all repurchase agreement transactions. The Fund is allocated interest income by the City.

It is the City's policy that all investments of the Fund, except repurchase or reverse-repurchase agreements, be held by banks or trust companies as agents of the City and in the City's name. It is the City's policy to hold all investments until maturity. The Fund had no investments at December 31, 2001 and 2000.

The first \$100,000 of bank deposits are federally insured. The Washington State Public Deposit Protection Commission (PDPC) collateralizes deposits in excess of \$100,000. The PDPC is a multiple financial institution collateral pool. There is no provision for the PDPC to make additional pro rata assessments if needed to cover a loss. Therefore, the PDPC protection is of the nature of collateral, not of insurance.

The City considers highly liquid, short-term investments with original maturities of three months or less to be cash equivalents. The cash pool operates like a demand deposit account in that all agencies, including the City, can deposit cash at any time and can also withdraw cash out of the pool without prior notice or penalty. Accordingly, the statements of cash flows reconcile to cash and equity in pooled investments plus the cash held in escrow for vendors. Securities with maturities exceeding three months at time of purchase are reported at fair value on the balance sheets; the net increase (decrease) in the fair value of those investments is reported as part of investment income.

The Fund had a \$3 million temporary loan from the City's Cumulative Reserve Sub-Fund as of December 31, 2001, to cover the negative operating cash balance. The loan was repaid with interest (interest rate of 4.95%) on January 2, 2002.

### NOTE 3: UTILITY PLANT

Utility plant consists of the following at December 31:

	<u>2001</u>	<u>2000</u>
Buildings	\$ 10,880,282	\$ 10,361,696
Machinery and equipment	<u>11,582,435</u>	<u>10,874,705</u>
Total plant in service	22,462,717	21,236,401
Less accumulated depreciation	<u>(14,310,599)</u>	<u>(12,599,804)</u>
	8,152,118	8,636,597
Construction in progress	2,952,205	8,466,119
Land	1,587,697	1,587,697
Nonoperating property, net of accumulated depreciation	<u>2,373,906</u>	<u>2,373,906</u>
Utility plant, net	<u>\$ 15,065,926</u>	<u>\$ 21,064,319</u>

During 2001 and 2000, the Fund capitalized interest costs relating to construction of \$177,615 and \$265,755, respectively.

### NOTE 4: REVENUE BONDS

The Fund defeased certain bonds by placing investments acquired from the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the Fund's financial statements. At December 31, 2001, the Solid Waste Revenue Bonds Series 1989A and 1989B are considered defeased. The difference between the cost to defease outstanding debt and the carrying value of bonds defeased by refunding bonds is deferred and amortized over the shorter of the remaining term of the refunded bonds or the term of the refunding bonds, using the effective interest method.

In October 1999, the Fund issued \$5,500,000 of Solid Waste Revenue Bonds, with varying principal payments beginning in the year 2000 and ending in 2019, with annual interest rates ranging from 4.75% to 5.90%. Proceeds of the issuance are being used to finance certain capital improvements to the Fund.

Minimum debt service requirements on revenue bonds are as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 3,405,000	\$ 1,944,698	\$ 5,349,698
2003	3,585,000	1,766,860	5,351,860
2004	3,770,000	1,579,622	5,349,622
2005	3,965,000	1,382,198	5,347,198
2006	4,170,000	1,174,560	5,344,560
Thereafter	<u>17,325,000</u>	<u>3,306,880</u>	<u>20,631,880</u>
	<u>\$ 36,220,000</u>	<u>\$ 11,154,818</u>	<u>\$ 47,374,818</u>

The revenue bonds contain certain financial covenants, the most significant of which requires the Fund to maintain net revenue available for debt service at least equal to 1.25 times annual debt service. Net revenue available for debt service, as defined by the bond covenants, was 3.96 times annual debt service for 2001. Net revenue available for debt service for the year ended December 31, 2001, is determined as follows:

Net income	\$ 565,724
Add:	
City occupation tax	13,209,875
Depreciation and amortization	5,102,512
Interest on revenue bonds	2,042,178
Amortization of debt expenses	135,091
Noncash investment fair value adjustment	66,671
Claims and damages claimed but not paid	<u>252,389</u>
	21,374,440
Less:	
Capitalized interest	<u>(177,615)</u>
Adjusted net revenue available for debt service	<u>\$21,196,825</u>
Debt service requirement (cash basis)	<u>\$ 5,356,748</u>
Coverage	3.96

#### **NOTE 5: RETIREMENT PLANS**

**Pension costs:** All permanent Fund employees are eligible to participate in the Seattle City Employees' Retirement System (the System), a cost-sharing public employee retirement system operated by the City. Benefits vest after five years of covered service. City employees may retire after 30 years of service regardless of age; after age 52, with 20 or more years of service; after age 57, with 10 or more years of service; and after age 62, with five or more years of service. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by City ordinances. The System's financial report that includes financial statements and required supplementary information for the System is available through the City.

City employees are required to contribute 8.03% of their annual base salary to the System. The City's contribution rate was 8.03% as of January 1, 2001 and 2000. Employer rates are established by the City Council on a biannual basis. The Fund's contributions to the System for the years ended December 31, 2001, 2000, and 1999, were \$798,234, \$766,183, and \$581,895, respectively. The Fund's contribution in 2001 represents its full liability to the System.

The System issues stand-alone financial statements which may be obtained by writing to the Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, Washington, 98104; telephone: (206) 386-1292.

Employer contributions for the City are as follows (dollars in millions):

<u>Year ended December 31,</u>	<u>City required contribution</u>	<u>City actual contribution</u>	<u>Percentage contributed</u>
1999	\$ 29.7	\$ 29.7	100 %
2000	30.8	30.8	100
2001	32.5	32.5	100

Actuarial data and assumptions

Valuation date	January 1, 2001
Actuarial cost method	Entry age
Amortization method	Level percent
Remaining amortization period	-0- years
Amortization period	Open
Asset valuation method	Market
Investment rate of return	8.00%
Projected general wage inflation	4.50%
Postretirement benefit increases	.67%

Schedules of funding progress (dollars in millions):

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liabilities (AAL) – entry age <sup>(1)</sup> (b)</u>	<u>Unfunded AAL (UAAL) <sup>(2)</sup> (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll <sup>(3)</sup> (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/ c)</u>
1/1/1999	\$ 1,375.0	\$ 1,326.6	\$ (48.4)	103.6 %	\$ 370.4	(13.1)%
1/1/2000	1,582.7	1,403.1	(179.6)	112.8	370.4	(48.5)
1/1/2001	1,493.1	1,490.3	(2.8)	100.2	383.7	(.7)

- (1) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (2) Actuarial accrued liabilities less actuarial value of assets.
- (3) Covered payroll includes compensation paid to all active employees on which contributions are calculated.

**Deferred compensation:** The City offers its employees a deferred compensation plan (the Plan), created in accordance with the Internal Revenue Code (IRC) Section 457. The Plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation is paid to employees upon termination, retirement, death, or unforeseeable emergency.

Effective January 1, 1999, the Plan is an eligible deferred compensation plan under Section 457 of the IRC of 1986, as amended, and a trust exempt from tax under IRC Sections 457(g) and 501(a). The Plan is operated for the exclusive benefit of participants and their beneficiaries. No part of the corpus or income of the Trust shall revert to the City or be used for, or diverted to, purposes other than the exclusive benefit of participants and their beneficiaries.

The Plan is not reported in the financial statements of the City or the Fund.

It is the opinion of the City's legal counsel that the City has no liability for investment losses under the Plan. Under the Plan, participants select investments from alternatives offered by the Plan Administrator, who is under contract with the City to manage the Plan. Investment selection by a participant may be changed from time to time. The City does not manage any of the investment selections. By making selections, participants accept and assume all risks inherent in the Plan and its administration.

#### **NOTE 6: RISK FINANCING LIABILITIES**

The City and the Fund are self-insured for certain losses arising from personal and property damage claims by third parties and for casualty losses to the Fund's property. Liabilities for identified claims and claims incurred but not reported have been recorded by the Fund.

For 2001 and 2000, liabilities for workers' compensation claims as well as other claims are discounted over a 15-year period at the City's rate of return on investments, 5.34% and 6.17%, respectively. Claims expected to be paid within one year were \$151,370 and \$96,559 at December 31, 2001 and 2000, respectively. The schedules below present the changes in the liability for workers' compensation claims as well as other claims (risk financing liabilities) as of December 31:

	<u>2001</u>	<u>2000</u>
Beginning liability	\$ 430,585	\$ 437,331
Payments	(183,147)	(89,853)
Incurred claims and changes in estimates	<u>252,389</u>	<u>83,107</u>
Ending liability	<u>\$ 499,827</u>	<u>\$ 430,585</u>

#### **NOTE 7: CONTRACTUAL OBLIGATIONS**

The City contracts with private companies for the collection of residential garbage, yard waste, and recycling. The contracts include certain additional costs related to bulky item collection and backyard service. New residential collection contracts with two private companies were implemented in April 2000 and end March 2007. Total payments under the prior and current contracts during 2001 and 2000 were \$21,779,978 and \$20,319,634, respectively. The Fund estimates that the total costs of these contracts for 2002 will be approximately \$22,280,000.

In 1990, the City signed a 38-year contract with Washington Waste Systems (WWS) for the disposal of nonrecyclable city waste, including the city's commercial waste collected by two state-franchised haulers. In 1996, the City renegotiated this contract to extend the first date at which it can choose to unilaterally terminate the contract from March 31, 2000, to March 31, 2006. In exchange, WWS agreed to reduce the contract price from approximately \$45/ton in 1996 to \$41.57/ton beginning April 15, 1997, and \$43.70/ton beginning April 2002. In addition, WWS agreed to reduce the price escalator in the contract from 90% of the Seattle-Tacoma CPI to 80%, effective April 15, 1998. The Fund paid WWS \$21,719,562 and \$21,434,807 under this contract in 2001 and 2000, respectively. The Fund approximates these costs to be \$21,230,000 in 2002.

For several years, the City has been in negotiations with the state-franchised haulers that have collected commercial waste in the city to bring them under contract with the City. The negotiations were successful, and as of April 1, 2001, commercial garbage has been collected under these new contracts. In 2001, payments under these contracts totalled \$11,451,744. In 2002, payments are expected to be approximately \$17,997,000. The contracts end March 31, 2008, but the City retains an option to extend the contracts to March 31, 2009, or March 31, 2010. As part of these commercial collection contracts, the City also negotiated a long-term yard waste processing contract with Cedar Grove Composting, Inc. and changes to the

disposal contract. The first opt-out date on the disposal contract was extended from March 31, 2006, to March 31, 2009, in exchange for price reductions of \$1.50/ton in 2003, an additional \$1.50/ton in 2005, and an additional \$1.50/ton in 2007.

#### **NOTE 8: LANDFILL CLOSURE AND POSTCLOSURE CARE**

At December 31, 2001 and 2000, accrued landfill and postclosure costs consist primarily of monitoring, maintenance, and repair costs. It is the City Council's policy to include the Fund's share of all landfill closure and postclosure costs in the revenue requirements used to set future solid waste rates. Therefore, total estimated landfill closure and postclosure care costs are accrued and also reflected as a deferred cost in the accompanying financial statements. These costs are being amortized as they are recovered from rate payers. Actual costs for closure and postclosure care may be higher due to inflation, changes in technology, or changes in regulations.

In prior years, the Fund delivered its refuse to two leased disposal sites: the Midway and Kent-Highlands landfills. Subsequent to signing the original lease agreement, federal and state requirements for closure of landfill sites were enacted. The Fund stopped disposing of municipal waste in the Midway site in 1983 and in the Kent-Highlands site in 1986.

Subsequent to their closing, the Kent-Highlands and Midway landfills were declared Superfund Sites by the federal government. In the same time period, nearby landowners, residents, and the federal and state governments made various claims of damages related to these landfills and sought various forms of relief. These claims have been settled, and the City does not anticipate further actions related to Kent-Highlands and Midway. Any future changes in the accrued landfill liability will be reflected in Fund rates.

In 1996, the City filed suit against various parties that disposed of waste at the Kent-Highlands landfill. In its suit, the City asserted that these parties (according to the Comprehensive Environmental Response, Compensation, and Liability Act) are liable for a portion of the cost of closing the Kent-Highlands landfill. The City completed settlement with the defendants in this suit in December 1997 and has recovered approximately \$2.23 million. The City settled a similar suit relating to the Midway landfill in 1994 and has since recovered \$6.4 million. The City does not anticipate any further legal actions relating to either landfill.